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SUBJECT: ARMENIA COMMERCIAL NEWS SUMMARY: APRIL
2006

SUMMARY

¶1. This cable summarizes press reporting on commercial developments in Armenia for April 2006. Major headlines include:

-- Greek Hellenic Telecommunications Organization (OTE) to sell its 90 percent share in the Armenia Telephone Company (ArmenTel);

-- GOAM sells Hrazdan Thermal Power Plant (HTPP) Russia to subsidize domestic natural gas consumers;

-- Air France initiates flights to Armenia;

-- Enterprise Incubator Foundation (EIF) opens a representation in Vienna, Austria; and

-- March 2006 economic data.

END SUMMARY.

OTE TO SELL ITS 90 PERCENT IN ARMENTEL

¶2. On April 4, Greek Hellenic Telecommunications Organization (OTE) announced plans to sell its 90 percent stake in the Armenia Telephone Company (ArmenTel). The GOAM owns the remaining 10 percent of ArmenTel shares. The Armenian Commission on Protection of Economic Competition has repeatedly fined ArmenTel over the past two years for abusing its dominant position in the market and some press reports speculate OTE decided to leave the Armenian market because of these fines. ArmenTel's market presence has also declined because a second mobile phone service provider entered the market in July 2005. OTE purchased 90 percent of ArmenTel's shares for 142.5 million in 1997. Experts estimate that OTE will need to sell its shares for USD 350-400 million to recover investment costs. Press reports suggest that the most likely bidders for OTE's shares are three Russian Telecom operators, Vimpelcom (the operator of Bee-line), Sistema (owner of MTS, MGTS and Comstar), and Megaphone. ArmenTel currently controls approximately 80 percent of the mobile telecommunication market and 100 percent of the land-based telephone market.

GOAM SELLS FINAL UNIT OF POWER PLANT TO RUSSIA

¶3. The Armenian Government announced plans to sell the fifth unit of the Hrazdan Thermal Power Plant (HTPP) to Russian energy giant Gazprom in the coming months. The GOAM transferred the four other units at the same location to Russian ownership in 2002 as part of a debt-for-equity agreement. The GOAM intends to use the proceeds of the sale to provide subsidies to natural gas consumers to help offset the almost 100 percent price increase for natural gas imported from Russia which took effect on April 1, 2006. According to press reports, Russia will pay the Armenian national currency equivalent of USD 248 million over the next three years, on the following schedule: USD 58.8 million in 2006, USD 70 million in 2007, USD 120 million in 2008. Minister of Energy Armen Movsisyan said Gazprom also committed to investing USD 150 million to complete construction of the fifth unit including the installation of a gas turbine with a capacity of 140 megawatts.

AIR FRANCE INITIATES FLIGHTS TO ARMENIA

¶4. On April 6, Air France began operating thrice-weekly flights between Paris and Yerevan. Airline management anticipates there will be a high demand for these flights because of the large Armenian Diaspora in France and because flight arrival times

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are scheduled for the early evening, as opposed to other international carriers, many of which have scheduled arrivals after midnight. These are Air France's first regularly scheduled flights into the South Caucasus.

EIF OPENS REPRESENTATION IN VIENNA

¶5. On April 11, Director of the World Bank-funded Enterprise Incubator Foundation (EIF) Bagrat Yengibaryan announced that EIF has opened a field office in Vienna to promote investment and sales opportunities for Armenian IT companies in Europe. According to Yengibaryan, 60 percent of Armenian IT companies work with U.S. partners, while only 10 percent have representation in Europe. EIF expects that its Vienna office will attract USD 300 thousand worth of orders for local IT companies in 2006. EIF also maintains a field office in Canada. Since its opening in 2004, EIF estimates that the Canadian office has attracted approximately USD 800,000 in orders to be filled by Armenian companies and is developing new projects valued at USD 1 million.

ECONOMIC DATA FOR MARCH 2006

¶6. According to preliminary data from the National Statistical Service, Armenia's real GDP the first quarter of 2006 grew by 7.9 percent year-on-year to USD 589.65 million. Industrial production totaled USD 234.76 million, down by 4.7 percent compared to January-March 2005, in part due to a significant decline in diamond production. Gross agricultural output for the January-March 2006 grew by 3.5 percent compared to January-March 2005 reaching USD

89.16 million. Construction was valued at USD 61.8 million, a 25.2 percent increase. Foreign trade turnover was down by 5.6 percent at USD 606.4 million, with imports of USD 422 million and exports of USD 184.4 million. The average USD/AMD exchange rate was 450.93.

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